

## Message Text

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ORIGIN EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AID-05 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00  
NSC-05 SS-15 STR-05 CEA-01 L-03 H-01 ITC-01 PA-01  
PRS-01 /111 R

DRAFTED BY EB/ICD/TRP:PPPILKAUSKAS:SKW

APPROVED BY EB/ORF:SBOSWORTH

EB/ORF/ICD:EAWENDT

STR:BSEASTRUM

ARA/ECP:WBURSON

ARA/PAN:DSWAGNER

USDA/FAS:LHURT

NSC:TDEAL

S/S :JTHYDEN

TREASURY:DCRAFTS (INFO)

-----071243 220538Z /15

R 220122Z SEP 77

FM SECSTATE WASHDC

TO AMEMBASSY PANAMA

INFO USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY BRUSSELS

C O N F I D E N T I A L STATE 227769

GENEVA FOR ASST SECTY KATZ; BRUSSELS FOR AMB STRAUSS

E.O. 11652: NA

TAGS: ETRD, EAGR, ECON

SUBJECT: PANAMA AND INTERNATIONAL SUGAR AGREEMENT NEGOTIATIONS

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REF: A) PANAMA 6739; (B) GENEVA 7754; (C)TOFAS PN 7008

1. DEPARTMENT APPRECIATES CONCERN OF GOP REGARDING SUGAR EXPORT EARNINGS AND PROPOSED INTERNATIONAL SUGAR AGREEMENT (ISA) QUOTAS. AT THE SAME TIME MANY OTHER EXPORTERS CURRENTLY NEGOTIATING AT THE ISA CONFERENCE IN GENEVA ARE IN A SIMILARLY DIFFICULT POSITION SINCE

THEY ARE RAPIDLY EXPANDING PRODUCTION ALSO.

2. ALTHOUGH IT IS NOT EXPLICITLY STATED IN THE ISA OR OTHER COMMODITY AGREEMENTS, QUOTA ALLOTMENT AMONG PRODUCING MEMBERS HAS TRADITIONALLY BEEN A MATTER FOR NEGOTIATION AMONG PRODUCERS. ANY U.S. INVOLVEMENT IN THE QUOTA BATTLE IN BEHALF OF A PRODUCER CAUSES RESENTMENT AMONG ALL OTHER PRODUCERS AND IS LIKELY TO BE COUNTERPRODUCTIVE. WE ARE LOATH TO GET INVOLVED SINCE EVERYONE IS UNHAPPY WITH THE QUOTA DIVISION AND THERE IS NOT MUCH PROFIT

IN IT FOR US. THE U.S. AND OTHER CONSUMING COUNTRIES HAVE ON OCCASION EXPRESSED SYMPATHY FOR SMALL EXPORTERS' PROBLEMS IN THE COFFEE AGREEMENT WITHOUT GOING SO FAR AS TO ENTER INTO THE PROCESS OF QUOTA ALLOCATION OR CHANGE. IN ANY EVENT IT IS LIKELY THE NEW ISA WILL PROVIDE FOR QUOTA RENEGOTIATION AFTER THE FIRST TWO YEARS OF OPERATION, GIVING PANAMA A CHANCE TO PROVE ITS CASE BASED ON FILLING ITS ALLOCATED QUOTA.

3. THE QUOTA DIVISION IS THE MOST DIFFICULT ISSUE OF THE NEGOTIATIONS AND IS AT THIS STAGE THE MAJOR REMAINING OBSTACLE TO AN ISA. ANY ONE COUNTRY, IF VIGOROUSLY BACKED BY THE U.S., CAN COMPLICATE THE ISSUE AND MAKE AGREEMENT EVEN LESS ATTAINABLE. THE U.S. HAS ALREADY BEEN ACCUSED OF FAVORING SOME LATIN AMERICAN COUNTRIES

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(E.G. BRAZIL) AGAINST CUBA FOR POLITICAL REASONS. IN FACT, CUBA WAS GIVEN A DISPROPORTIONATELY LARGE QUOTA BY THE CHAIRMAN. IN ORDER TO ACHIEVE AN EFFECTIVE AGREEMENT, WE BELIEVE IT IS IMPORTANT FOR THE U.S. TO AVOID ANY INTERVENTION THAT COULD BE INTERPRETED AS POLITICIZING THE NEGOTIATIONS.

4. THE U.S. HAS CHAMPIONED A QUOTA FORMULA BASED STRICTLY ON EXPORT PERFORMANCE. PANAMA'S SHARE OF THE QUOTA ON THAT BASIS IS NOT TOO UNREALISTIC. PANAMA'S HIGHEST YEAR FOR EXPORTS BETWEEN 1967 AND 1976 WAS 93,000 METRIC TONS IN 1976. USDA'S BEST ESTIMATE OF 1978 EXPORT AVAILABILITY FOR PANAMA IS 140,000 METRIC TONS. A REASONABLE QUOTA SHARE FOR PANAMA MIGHT BE SOMEWHERE BETWEEN 90,000 AND 110,000 TONS. OTHER CENTRAL AMERICAN COUNTRIES IN A SIMILAR POSITION ARE GUATEMALA WITH A QUOTA OF 300,000 AND A USDA ESTIMATED POTENTIAL OF 400,000 AND NICARAGUA WITH 125,000, ALTHOUGH THE USDA ESTIMATE IS 150,000. OUR CONCERN IN GENEVA IS RESTRICT THE AMOUNT OF SUGAR COMING INTO THE MARKET IN ORDER TO RAISE THE PRICE. A LARGER EXPORT SHARE FOR EACH EXPANDING PRODUCER JEOPARDIZES THAT GOAL AND IN TURN MAKES THE NEED FOR SEVERE

U.S. IMPORT RESTRICTIONS MORE LIKELY. SINCE WE ARE PANAMA'S ONLY CURRENT MARKET FOR SUGAR THE LATTER THREAT SEEMS GRAVER THAN A SOMEWHAT SMALLER ISA QUOTA.

5. WE BELIEVE THE SIZE OF THE OVERALL QUOTA PROPOSED (14,762,750 TONS) IS TOO LARGE TO ACHIEVE THE DESIRED PRICE. CONFERENCE PARTICIPANTS ARE CURRENTLY NEGOTIATING ON THE BASIS OF THE INITIAL QUOTA PROPOSAL BY THE CONFERENCE CHAIRMAN IN AN ATTEMPT TO MAKE IT MORE REALISTIC, MORE EQUITABLE AND MORE CAPABLE OF STABILIZING WORLD SUGAR PRICES.

6. PANAMA DID NOT SPEAK ON ITS BEHALF DURING THE ENTIRE SIX WEEK FIRST SESSION OF ISA NEGOTIATIONS IN APRIL-MAY  
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1977. ON THE OTHER HAND SOME COUNTRIES IN SIMILAR CIRCUMSTANCES, SUCH AS COSTA RICA, SPOKE UP VIGOROUSLY IN THE QUOTA SHARE-PRODUCTION EXPANSION ISSUE. PANAMA COULD HAVE DONE A MORE EFFECTIVE JOB OF DEFENDING ITS OWN INTERESTS. VANCE

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## Message Attributes

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**Review Markings:**  
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